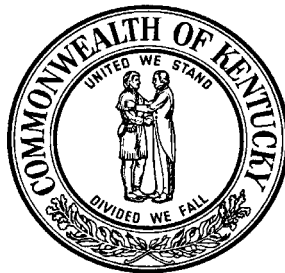


**REPORT OF THE AUDIT OF THE  
GRAVES COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**April 26, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the Graves County Sheriff's Settlement - 2001 Taxes.

We engaged Berger & Company, CPA, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC, evaluated the Graves County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
GRAVES COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**April 26, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Graves County Sheriff as of April 26, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$6,271,692 for the districts for 2001 taxes, retaining commissions of \$259,477 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,975,496 to the districts for 2001 Taxes. Taxes of \$391 are due to the districts from the Sheriff and refunds of \$130 are due to the Sheriff from the taxing districts.

**Report Comment:**

The Sheriff Should Have A Written Agreement to Protect Deposits



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To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Tony Smith, Graves County Judge/Executive

Honorable John Davis, Graves County Sheriff

Members of the Graves County Fiscal Court

#### Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2001 Taxes as of April 26, 2002. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid as of April 26, 2002, in conformity with the modified cash basis of accounting.

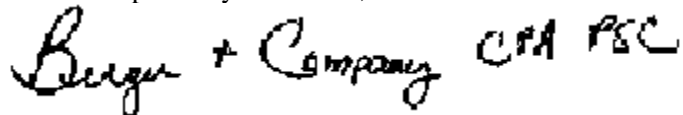
To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
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Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have A Written Agreement to Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -  
July 25, 2003

GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

April 26, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 746,631	\$ 812,729	\$ 2,041,274	\$ 1,167,147
Tangible Personal Property	119,888	106,643	302,087	450,441
Intangible Personal Property				126,247
Fire Protection	697			
Franchise Corporation	124,904	145,063	318,657	
Increase Due To				
Erroneous Assessments	1,424	1,567	1,319	2,965
Additional Billings - Prior Year	1,754	1,773	155	2,939
Clay Reserves	83	84	293	130
Bank Franchise Taxes	100,741			
Penalties	7,048	7,509	18,951	14,118
Adjusted to Sheriff's Receipt	151	(499)	544	(1,323)
Gross Chargeable to Sheriff	<u>\$ 1,103,321</u>	<u>\$ 1,074,869</u>	<u>\$ 2,683,280</u>	<u>\$ 1,762,664</u>
<u>Credits</u>				
Exonerations	\$ 3,550	\$ 3,951	\$ 10,353	\$ 7,164
Discounts	13,061	13,769	35,174	26,757
Delinquents:				
Real Estate	16,462	17,951	42,538	25,734
Tangible Personal Property	612	544	1,783	2,217
Intangible Personal Property				2,292
Discounts - Bank Franchises	2,015			
Uncollected Additional Billings	1,710	1,726	94	2,772
Uncollected Franchise Corporation	22,608	34,109	63,496	
Total Credits	<u>\$ 60,018</u>	<u>\$ 72,050</u>	<u>\$ 153,438</u>	<u>\$ 66,936</u>
Taxes Collected	\$ 1,043,303	\$ 1,002,819	\$ 2,529,842	\$ 1,695,728
Less: Commissions *	<u>44,381</u>	<u>41,546</u>	<u>101,194</u>	<u>72,356</u>
Taxes Due	\$ 998,922	\$ 961,273	\$ 2,428,648	\$ 1,623,372
Taxes Paid	993,609	956,057	2,411,218	1,614,612
Refunds (Current and Prior Year)	<u>5,061</u>	<u>5,124</u>	<u>17,386</u>	<u>8,887</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 252</u>	<u>\$ ** 92</u>	<u>\$ 44</u>	<u>\$ (127)</u>

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY  
 JOHN DAVIS, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2001 TAXES  
 April 26, 2002  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	3,600,089
4% on	\$	2,628,568
1% on	\$	33,035

\*\* Special Taxing Districts:

Library District	\$	32
Health District		40
JU Kevil		23
Symsonia Fire		(3)
		<hr/>
Due Districts or (Refund Due Sheriff)	\$	<u>92</u>

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT

April 26, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 26, 2002  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2001 through April 26, 2002.

Note 4. Interest Income

The Graves County Sheriff earned \$9,836 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$34,645 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$3,240 of advertising costs and \$3,970 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION





GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of April 26, 2002

The Sheriff Should Have A Written Agreement to Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 26, 2002, the Sheriff had bank deposits of \$4,415,057; FDIC insurance of \$100,000; and collateral pledged or provided of \$5,500,000. Even though the Sheriff obtained sufficient collateral of \$5,500,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

*Sheriff's Response:*

*Will request from bank.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





To the People of Kentucky  
Honorable Paul E. Patton, Governor  
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Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2001 Taxes as of April 26, 2002, and have issued our report thereon dated July 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2001 Taxes as of April 26, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have A Written Agreement to Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

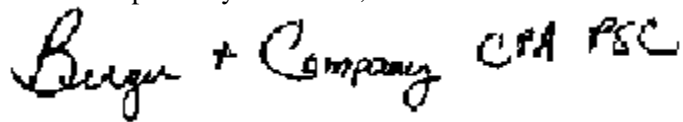
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -  
July 25, 2003

